

Our Best Advice to Taxpayers

The department offers the following advice to taxpayers who want to have the best experience possible during tax season.

File early

Taxpayers who are expecting a refund will receive that refund faster if they file early in the tax season. The earlier taxpayers file, the better service the department can provide in getting tax returns processed and refunds issued quickly.

Taxpayers who have taxes due are also encouraged to file early with the option to pay later. Using direct debit when filing electronically, taxpayers can wait to pay any balance due until closer to the tax deadline. Taxpayers simply authorize the department to withdraw the amount of tax due from a checking or savings account on a date that the taxpayer chooses. Taxpayers who file early using a paper return may choose to pay electronically on or before the due date using a credit card or electronic check. To learn more about these electronic payment options, please go to [Income Tax Express](#). Taxpayers who prefer to pay using a paper check are asked to remit a payment coupon with the check and to write an ID number (social security number or account number) and the words "2006 individual income tax" on the memo line of the check.

File electronically

Electronic filing is a quick and accurate way to file a state income tax return. Taxpayers who file their federal income tax return electronically can file their state income tax return at the same time. The refund will be issued quickly, usually within a week. More than half of Montana taxpayers file electronically.

Choose direct deposit if you are expecting a refund

Taxpayers can reduce the wait for a refund through direct electronic deposit into a bank account. Taxpayers simply check the box indicating they want direct deposit, then provide information about their financial institution and account (routing number, account number, whether the account is checking or savings).

Check our website for tax season updates

Please take some time to visit our website at mt.gov/revenue, where you'll find tax season updates, frequently asked questions and other helpful filing information.

New Forms

The biggest change taxpayers will find this year is new tax forms. For tax year 2006, the department discontinued Form 2S (short form) and replaced it with two new forms. The Form 2 (long form) is still available.

Montana taxpayers now have three options similar to the three main federal forms. Taxpayers who traditionally file a Form 2S will most likely use either Form 2EZ or Form 2M. Taxpayers who traditionally file a Form 2 may be able to use the new Form 2M.

Here's a description of the two new forms that replaced Form 2S:

- ☐ **Form 2EZ** – Comparable to the federal Form 1040EZ, the Montana Form 2EZ is designed for those who are a Montana resident filing from a Montana address; have income from wages, interest, and/or unemployment compensation; and would not benefit from itemizing deductions. Form 2EZ can be filed electronically for free on the department's website at mt.gov/revenue.
- ☐ **Form 2M** – Similar to the federal Form 1040A, the Montana Form 2M is designed for those who have mainly wage, salary and investment income, but also itemize deductions and are entitled to certain tax credits. Form 2M also is a good choice for those who have pension, social security, and investment income and perhaps also claim the elderly/homeowner renter credit.

Find the Status of Your Refund Online

This year, taxpayers will find a new online service to check the status of their income tax refunds. To access this service, simply click on the Where's My Refund? icon on the main page of the Montana Department of Revenue's website at mt.gov/revenue. Taxpayers also can check the status of a refund by phone as they have in the past. The phone number for the 24-hour service is (406) 444-9840.

Tax Deadline is now April 17

Because of a federal tax filing deadline change, the Department of Revenue will accept tax returns for tax year 2006 as on-time returns if filed by Tuesday, April 17, 2007.

The Internal Revenue Service announced last month that they were changing this year's federal income tax deadline to April 17. By law, federal filing and payment deadlines that fall on a Saturday, Sunday or legal holiday are timely satisfied if met on the next business day. This year the traditional "Tax Day" of April 15 falls on a Sunday. The next day, April 16, is Emancipation Day, a new legal holiday in the District of Columbia, which has a nationwide impact that the IRS must consider by law when determining the tax filing deadline.

In Montana, the April 17 deadline will apply to any tax return, tax payment, or other required action. This includes 2006 state individual income tax returns, whether filed electronically or by paper.

Worksheet II is Revised

The Montana Department of Revenue has revised its Worksheet II, also known as the "tax benefit rule for federal income tax refund" worksheet, for the 2006 tax year. The worksheet revision will typically apply to taxpayers who paid more than \$5,000 in federal taxes in 2005 (\$10,000 if married and filing jointly), itemized deductions for state purposes, and received a federal income tax refund in 2006.

The department provides Worksheet II each year to assist taxpayers in calculating how much, if any, of their respective federal income tax refund must be reported as Montana income in the tax year that the refund is received.

Beginning with the 2005 tax year, the deduction for federal income tax paid was limited to \$5,000 per taxpayer or \$10,000 for married taxpayers who file jointly.

The Department of Revenue discovered that the original worksheet could result in inequitable tax treatment for some taxpayers who were impacted by the federal income tax deduction limitation. As a result, the department revised Worksheet II to address these circumstances.

Taxpayers who have already filed their 2006 Montana individual income tax returns, and who would be entitled to a refund as a result of using the revised worksheet, are asked to file an amended tax return with the revised Worksheet II attached. The revised Worksheet II can be downloaded from the department's website at mt.gov/revenue.

The department also is working with electronic filing software vendors to update the worksheet in their programs.

Montana Treatment of Federal "Extenders"

In December, Congress passed and President Bush signed a bill that extended several temporary provisions in the tax code which had expired for the 2006 tax year. Passage of the bill resurrected the provisions for the 2006 tax year. There are many items in the bill but three directly impact Montana:

1. Above the line deduction for educator expenses (up to \$250)
2. Above the line deduction for tuition and fees expenses
3. Allow an itemized deduction for state and local general sales taxes

Because these items were not in effect at the time that both state and federal forms became final, they are not specifically listed on the 2006 tax returns as they were on the 2005 tax returns. For 2005, items 1 and 2 were specific lines on the 1040A and 1040. When the IRS prepared their 2006 tax forms, two permanent items (Archer MSA and Jury Duty Pay) were substituted on these lines. Because the Montana Department of Revenue designed the forms to follow the IRS forms, we made the same substitution.

The itemized deduction for state and local sales taxes is an election the taxpayer makes for federal purposes. The taxpayer can either deduct sales taxes or state and local income taxes. The state income tax deduction is a permanent part of the federal code so there isn't a significant impact to the federal forms. Montana law specifically disallows the deduction for state income taxes but we did allow the deduction for sales taxes in 2005 if they took the same deduction federally. Accordingly, a line was added on the state itemized deduction schedule in 2005 that is no longer included for 2006.

Federal Instructions

With the late extension of the temporary provisions, the federal government is instructing taxpayers in the following manner:

Educator Expenses

- ☐ Taxpayers must file Form 1040 (or Form 1040NR) to take this deduction. It cannot be claimed on Form 1040A.
- ☐ Include the deduction on line 23 of Form 1040 (or line 24 of Form 1040NR). To the left of the entry space for that line, enter "E" for educator expenses or "B" for both the Archer MSA deduction and educator expenses. For an entry of "B," taxpayers also must attach a statement with a breakdown of the amounts.

Tuition and Fees Deduction

- ☐ Taxpayers must file Form 1040 to take this deduction. It cannot be claimed on Form 1040A.

- ☐ Include the deduction on line 35 of Form 1040. To the left of the entry space for that line, enter "T" for tuition and fees or "B" for both the domestic production activities deduction and tuition and fees. For an entry of "B," taxpayers also must attach a statement with a breakdown of the amounts.

State and Local General Sales Tax Deduction

On Schedule A (Form 1040), taxpayers will enter the deduction on line 5 and enter "ST" to the left of the entry space for that line.

Montana Instructions

Educator Expenses

Tuition and Fees Deduction

The Department of Revenue is asking that taxpayers follow the federal guidelines with respect to the Educator Expenses and the Tuition and Fees Deduction. Therefore, the taxpayers claiming these items would only be able to file Montana Form 2. The deduction for Educator Expenses should be reported on line 23, and the Tuition and Fees Deduction should be reported on line 35. If you filed your federal tax return jointly with your spouse but are filing your Montana tax return separately, you are not entitled to the Tuition and Fees Deduction. If you reported the deduction on line 35, it must be added back on Schedule I, line 16.

State and Local General Sales Tax Deduction

With respect to the general sales tax deduction, the Department of Revenue is requesting taxpayers to report that amount on line 11 "Other deductible taxes" of the Montana itemized deduction schedule. Please note that you can only claim the itemized deduction for state and local general sales taxes if you deducted these taxes on your federal return. It should also be noted that the "resort tax" collected in some communities in Montana is not deductible.

Montana Law Changes for Tax Year 2006

Interest on Unpaid Individual Income Tax Liabilities – Effective January 1, 2007, the interest rate for all unpaid individual income taxes will change. Interest will accrue daily at an annual rate of 8% instead of 12%. The new rate applies during the year to all individual income tax debts regardless of the age of the debt. The change in rate does not affect any interest accrued before January 1, 2007. The rate depends on the rate set by the Internal Revenue Service. It may fluctuate each year but will never be less than 8%.

Insure Montana Small Business Health Insurance Credit – Insure Montana provides a refundable state income tax credit to employers who currently pay some or all of the cost of group health insurance for their employees. The program also provides additional tax credits when employers pay for insurance for the employee's spouse or dependents. A copy of the certificate from the State Auditor's Office providing the amount of tax credit the business received (or the letter if the credit was adjusted during the year by the State Auditor's Office) must be attached to the tax return.

Voluntary Check-off for End-stage Renal Disease Program Contributions – This program provides financial assistance to people with chronic renal disease. A taxpayer may now make a voluntary

contribution to this program on their tax return. Other voluntary check-offs that continue to remain on the tax return are the nongame wildlife program, child abuse prevention, and agriculture in schools.

Credit for Income Tax Paid to a Foreign Country – Beginning with the 2006 tax year, to the extent the foreign tax credit was claimed on the federal tax return, it cannot be claimed on the Montana individual income tax return.

Tax Assistance

Call Center

8 a.m. – 5 p.m., Monday – Friday

(406) 444-6900

Note: Lowest volume of calls is typically received in the midmorning (9 – 11 a.m.), so this is a good time for taxpayers to call with minimal wait. Highest volume of calls is typically received in the early afternoon (1:30 – 3:30 p.m.), and the wait for taxpayers may be several minutes during this period.

Website

www.mt.gov/revenue

Please take some time to visit our website. The website contains a variety of filing information, and includes an e-mail function that allows taxpayers to send a message to the department. To access the e-mail function, click on Contact Us.

Note: Taxpayers who do not have Internet access at home, but want to file electronically, may want to visit their local library for free Internet use. An Internet e-mail account is required for acknowledgement of receipt of the tax return.

Walk-in Assistance

Sam W. Mitchell Building
125 North Roberts Street
Helena, Montana

Note: Taxpayer assistance is available year-round. A special taxpayer assistance room is open on the first floor of the building from March 1 – April 17.

Other Telephone Numbers

Where's My Refund - (406) 444-9840

Telephone Device for the Deaf (TDD) - (406) 444-2830

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